

A Study of investors' Perceptions and Preferences towards Equity Linked Savings Scheme mutual funds as compared to other Tax Saving Investments- A Survey

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Abstract

The Indian mutual fund industry has developed tremendously in the last few decades, after it has been open up for private players in 1993. Earlier UTI (Unit trust of India) was the sole player in mutual fund, however after the opening up of this sector to the private players intense competition has been seen in this financial sector, especially in last two decades. Equity link saving scheme, more popularly known as ELSS was introduced in the year 1992 as a tax saver scheme U/S 88 where investor was provided tax rebate. However, in the financial year 2005-06 onwards tax rebate provided was changed to that of tax deduction U/S 80C of the income tax Act 1961 for investments made in the said fund. Since this fund has been there for around more than two decades, it is imperative to know the perceptions and preferences of investors towards ELSS and other tax saving avenues which has also been increased over a period of time in India. The present study has made an attempt to find out how the investors perceive and prefer ELSS mutual funds as compared to other Tax saving investment avenues available in the market. The present study, based on a survey of 100 respondents in Goa, is a modest attempt to find out the perception and preferences of investors toward ELSS as compared to other tax savings instruments available in India. As far as the perceptions and preferences of the investors is concerned it was found that there is a significant difference between investors perception towards Growth option investment plan of ELSS and investments in PPF, LIC, 5years fixed deposit bank schemes and NPS.

Keywords: Perceptions and Preferences, Mutual Funds, ELSS, PPF, AMC, Diversified Equity Fund, NPS.

INTRODUCTION

The main principle on which the mutual fund works is based on collecting the small savings from middle class investors who do not want to directly invest in stock market but want to enjoy the returns as stock market grows and to provide the benefits of diversification and professional management. As an investment avenue mutual fund is especially designed for the investors who wants to make small and

infrequent savings. This type of investment is a better option for those investors who lacks requisite skills for investment management.

Equity link saving schemes has been there around in Indian market for about more than two decades now, although know to be the popular investment avenue for tax savings, it has also helped the investors to generate wealth for long term investors. When the ELSS was introduced, the government initially tax rebate

u/s 88 of the Income Tax Act was provided to the investors. The maximum amount of investment in ELSS that was eligible for tax rebate in a financial year was ₹10000. Maximum 30% tax rebate was given. This means that with an investment of ₹10000 in ELSS, an investor could save a maximum income tax to the extent of ₹ 3000. However, from the financial year 2005-06 government decided to provide the deduction under u/s 80C of the Income Tax Act to widen the benefits and the eligible investment limit for a financial year was increased to ₹100000. The impact of this was that the investor's taxable income reduces by a maximum amount of ₹100000 and thereby his tax payable also came down accordingly. Currently one can invest ₹150000 and avail the tax benefit U/S 80C.

Amidst the quest to achieve different goals through wealth creation and also bring down tax outgo through tax saving instruments, one tax saving instrument that reasonably offers the dual benefits of tax saving and wealth creation is ELSS. Looking at the maturity of the mutual fund industry, it is necessary to understand the investors perception and preference towards ELSS as compared to other tax saving instruments in this changed regime.

Literature Review

In recent times more focus has been paid to the performance of mutual funds. In India most of the studies have reported satisfactory performance of mutual funds, still the industry has been witnessing growth in terms of investors base and funds. A study of such phenomenon must first of all analyse the mindset of the investors in order understand the perception and preferences. Gupta (1993) reported nearly fifty percent of the investors entered mutual fund industry in 1990 or later. Gruber (1996) found out that the sophisticated clientele withdrew money from mutual funds in case the funds' performance is found to be poor. Singh and Vanita (2002) examined the investors' preferences and perception towards mutual fund investments by undertaking a survey of 150 respondents in the city of Delhi,

finding that majority of the investors were dissatisfied with the performance of their mutual funds and mostly belonged to the category who held growth schemes. Singh and Chander (2004) studied to understand the perception of investors towards mutual funds. The study analysed the reasons for withdrawal or non-investment. M. Karthikeyan (2018) his study presents the customer perception on mutual funds. The study shows that the majority of the general population is hesitate in going for new age investments like mutual funds and wants to reduced its investment risks by putting resources into less risky choices such as recurring deposits and alike.

There has been structural transformation in Indian Mutual fund industry in recent times, and hence there is need for a survey which examines perceptions and preference of investors in this changed regime.

OBJECTIVE OF THE STUDY:

To study the investor's Perception and Preference towards Equity Linked Savings Scheme mutual funds and other Tax Saving Investments.

Research Methodology

In order to collect necessary primary data, a structured questionnaire was designed and a survey was conducted by taking a sample of 100 respondents from state of Goa investing in ELSS and other tax saving instruments. Out of these 100 respondents 33.8% were between age of 36-50 years, 30.8% were between 26-35. Around 65% of these respondents are graduate & postgraduate. A purposive sampling method has been used for the purpose. Based on Normality table it was found that almost all variables are skewed which shows data is not normally distributed. As taken data is not normally distributed, so chi-square test has been applied to test the hypothesis developed for this primary research study. The survey was conducted between November 2021 to January 2022.

Period of study: Survey was conducted between December 2021 to February 2022.

Statistical Tools and techniques used: In order to collect the data a well organised structured questionnaire has been prepared and administered on 104 respondents out of which 100 responses were considered for analysis. In order to analyse the data a statistical software, SPSS has been used to run the Chi-Square test.

Limitations of the study:

- 1) The present study is limited to the state of Goa
- 2) The sample chosen is randomly across the state of Goa, limited to 100 respondents.

Analysis and Interpretation

PERCEPTIONS:HYPOTHESIS H1

H1: There is no significant difference between Investors perception towards Growth option Investment plan of ELSS and Public Provident Fund scheme.

Chi-Square Tests

	Value	df	Asymptotic Significance (2-sided)
Pearson Chi-Square	13.394 ^a	16	.644
Likelihood Ratio	16.152	16	.442
Linear-by-Linear Association	2.450	1	.118
N of Valid Cases	100		

Source: SPSS output

P value .644 is more than the significance value of .05 hence it is not statistically significant and indicates strong evidence for the null hypothesis.

HYPOTHESIS H2

H2: There is no significant difference between Investors perception towards Dividend option Investment plan of ELSS and Premium of Life Insurance scheme.

Chi-Square Tests

	Value	df	Asymptotic Significance (2-sided)
Pearson Chi-Square	9.805 ^a	16	.877
Likelihood Ratio	10.947	16	.813
Linear-by-Linear Association	.057	1	.811
N of Valid Cases	100		

Source: SPSS output

P value .877 is more than the significance value of .05 hence it is not statistically significant and give evidence for our research hypothesis.

HYPOTHESIS H3

H3: There is no significant difference between Investors perception towards Capital Appreciation under ELSS and 5 Years Bank Fixed Deposits scheme.

Chi-Square Tests

	Value	df	Asymptotic Significance (2-sided)
Pearson Chi-Square	9.577 ^a	16	.888
Likelihood Ratio	11.703	16	.764
Linear-by-Linear Association	.003	1	.960
N of Valid Cases	100		

Source: SPSS output

P value .888 is more than the significance value of .05 hence it is not statistically significant and indicates strong evidence for the null hypothesis.

HYPOTHESIS H4

H4: There is no significant difference between Investors perception towards Retirement planning under ELSS and National Pension Scheme.

Chi-Square Tests

	Value	df	Asymptotic Significance (2-sided)
Pearson Chi-Square	14.727 ^a	16	.545
Likelihood Ratio	16.873	16	.394
Linear-by-Linear Association	.225	1	.636
N of Valid Cases	100		

Source: SPSS output

P value .545 is more than the significance value of .05 hence it is not statistically significant and indicates strong evidence for the null hypothesis.

PREFERENCES:**HYPOTHESIS H5:**

H5: There is no significant difference between Investors preference towards Growth option Investment plan of ELSS and Public Provident Fund scheme.

Chi-Square Tests

	Value	df	Asymptotic Significance (2-sided)
Pearson Chi-Square	16.975 ^a	16	.387
Likelihood Ratio	19.640	16	.237
Linear-by-Linear Association	1.675	1	.196
N of Valid Cases	100		

Source: SPSS output

P value .387 is more than the significance value of .05 hence it is not statistically significant and indicates strong evidence for the null hypothesis.

HYPOTHESIS H6

H6: There is no significant difference between Investors preference towards Dividend option Investment plan of ELSS and Premium of Life Insurance scheme.

Chi-Square Tests

	Value	df	Asymptotic Significance (2-sided)
Pearson Chi-Square	21.388 ^a	16	.164
Likelihood Ratio	23.169	16	.109
Linear-by-Linear Association	1.391	1	.238
N of Valid Cases	100		

Source: SPSS output

P value .164 is more than the significance value of .05 hence it is not statistically significant and indicates strong evidence for the null hypothesis.

HYPOTHESIS 7

H7: There is no significant difference between Investors preference towards Capital Appreciation under ELSS and 5 Years Bank Fixed Deposits scheme.

Chi-Square Tests

	Value	df	Asymptotic Significance (2-sided)
Pearson Chi-Square	18.025 ^a	16	.322
Likelihood Ratio	19.127	16	.262
Linear-by-Linear Association	.587	1	.444
N of Valid Cases	100		

Source: SPSS output

P value .322 is more than the significance value of .05 hence it is not statistically significant and indicates strong evidence for the null hypothesis.

HYPOTHESIS H8

H8: There is no significant difference between Investors preference towards Retirement planning under ELSS and National Pension Scheme.

Chi-Square Tests

	Value	df	Asymptotic Significance (2-sided)
Pearson Chi-Square	15.014 ^a	16	.524

Likelihood Ratio	14.976	16	.526
Linear-by-Linear Association	.314	1	.575
N of Valid Cases	100		

Source: SPSS output

P value .524 is more than the significance value of .05 hence it is not statistically significant and indicates strong evidence for the null hypothesis. Hence null hypothesis has been accepted.

Summary of Hypothesis tested

Hypothesis(perceptions)	Accepted/Rejected	Inference
H1: no significant difference between Investors perception towards Growth option Investment plan of ELSS and Public Provident Fund scheme.	Null Hypothesis Accepted	There is a significant difference between investors perception towards Growth option investment plan of ELSS and PPF
H2: no significant difference between Investors perception towards Dividend option Investment plan of ELSS and Premium of Life Insurance scheme.	Null Hypothesis Accepted	There is a significant difference between investors perception towards Dividend option of investment plan of ELSS and premium of Life insurance policy
H3: no significant difference between Investors perception towards Capital Appreciation under ELSS and 5 Years Bank Fixed Deposits scheme.	Null Hypothesis Accepted	There is a significant difference between investors perception towards Capital appreciation under ELSS and 5 Years Bank Fixed Deposits scheme.
H4: no significant difference between Investors perception towards Retirement planning under ELSS and National Pension Scheme.	Null Hypothesis Accepted	There is significant difference between Investors perception towards Retirement planning under ELSS and National Pension Scheme.
Hypothesis (Preference)	Accepted/Rejected	Inference
H5: no significant difference between Investors preference towards Growth option Investment plan of ELSS and Public Provident Fund scheme.	Null Hypothesis Accepted	There is significant difference between Investors preference towards Growth option Investment plan of ELSS and Public Provident Fund scheme.
H6: no significant difference between Investors preference towards Dividend option Investment plan of ELSS and Premium of Life Insurance scheme.	Null Hypothesis Accepted	There is significant difference between Investors preference towards Dividend option Investment plan of ELSS and Premium of Life Insurance scheme.

H7: no significant difference between Investors preference towards Capital Appreciation under ELSS and 5 Years Bank Fixed Deposits scheme.	Null Hypothesis Accepted	There is significant difference between Investors preference towards Capital Appreciation under ELSS and 5 Years Bank Fixed Deposits scheme.
H8: no significant difference between Investors preference towards Retirement planning under ELSS and National Pension Scheme.	Null Hypothesis Accepted	There is significant difference between Investors preference towards Retirement planning under ELSS and National Pension Scheme.

Overall, in all the cases null hypothesis has been understanding of the investment starts with awareness and ends with investment experience. Mutual fund distributors and advisors can play a very important role in facilitating this at a faster pace. It is necessary that Asset Management Companies (AMC) and Regulator had to work hand

FINDINGS AND CONCLUSION

As far as the personal profile of the respondents under research study is concerned, nearly 33.8% were in the age group of (36-50 years), 32 % belongs middle income group (500,000 - 10,00,000), 42% were salaried and 80% were at least graduates.

When it comes to perceptions of the investors it was found that there is a significant difference between investors perception towards Growth option investment plan of ELSS and investments in PPF, LIC, 5years fixed deposit bank schemes and NPS. The basic driving force behind investment in ELSS mutual fund is tax benefits associated with it.

Similarly, if we look at the preference of the investors also it was found that there is significant difference between Investors preference towards Growth option Investment plan of ELSS and PPF, LIC, 5years fixed deposit bank schemes and NPS. The most preferred financial assets are PPF and NPS. It was also seen that males have given more preference for mutual funds than females. It was also observed that Mutual funds are more popular investment choice of younger

population. Similarly, the acceptability of ELSS mutual funds were found to be high with post graduates and graduates. On the same lines it was noticed that salaried class investors (private and Govt.), had a higher preference for mutual funds.

The success and future of ELSS funds as a category will depend upon the understanding and awareness of the investment by investors in glove in order to achieve this objective for the benefit of all the stake holders. accepted hence, so it is not statistically significant and indicates strong evidence for the null hypothesis.

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